1. Which of the following would NOT be classified as a macroeconomic question?
   A) How many people are employed in the economy as a whole?
   B) What determines the overall level of prices in the economy as a whole?
   C) What determines the overall trade in goods, services, and financial assets between the United States and the rest of the world?
   D) What determines the cost to a university or college of offering a new course?

2. In the paradox of thrift:
   A) firms that are pessimistic about the future lay off the most saving-conscientious workers.
   B) when families and business are feeling pessimistic about the future, they spend more today.
   C) increased saving by individuals increases their chances of becoming unemployed.
   D) profligate behavior during economic tough times has large negative consequences for society.

3. Changing the level of government spending is an example of:
   A) fiscal policy.
   B) interest rate policy.
   C) monetary policy.
   D) exchange rate policy.

4. Among the tools available to macroeconomic policy makers is:
   A) fiscal policy, for use in controlling government spending and taxation.
   B) antitrust policy, to break up monopolies.
   C) environmental policy, to clean up the economy.
   D) improving FDA standards for food and drugs.

5. An expansion is a period in which:
   A) output declines.
   B) the price level falls.
   C) output rises.
   D) unemployment rises.

6. The trough of the business cycle:
   A) comes right after the expansion phase.
   B) comes before the recession phase.
   C) is a temporary maximum level of real GDP.
   D) is a temporary minimum level of real GDP.

7. A recession leads to all of the following EXCEPT:
   A) higher unemployment.
   B) reduced output.
   C) reduced income and living standards.
   D) higher employment.
8. Long-run growth is:
A) the sustained upward trend in aggregate output per person over several decades.
B) the expansion phase of business cycles.
C) the downturn phase of business cycles.
D) the sustained downward trend in the employment rate over several decades.

9. Per capita economic growth is:
A) economic growth per unit of capital.
B) economic growth per person.
C) economic expansion over the business cycle.
D) sustained increase in aggregate output.

10. If the economy grew at a 3% rate this year and average prices increased _____, people would be better off this year than last year.
A) 3%
B) faster than 3%
C) less than 3%
D) faster than 10%

11. During inflation:
A) the average price level falls.
B) the average price level increases.
C) the average price level becomes negative.
D) the real price level falls.

12. An open economy is an economy:
A) that trades goods and services with other countries.
B) that does not regulate its industries.
C) that does not impose taxes on its citizens.
D) in which freedom of speech and religion can be practiced freely.

13. According to the circular-flow diagram, which of the following economic agents engages in consumer spending?
A) firms
B) households
C) factor markets
D) financial markets

14. Goods that are produced domestically but sold abroad are:
A) imports.
B) exports.
C) part of domestic consumption.
D) investment.

15. Investment spending represents spending on:
A) productive physical capital.
B) stocks.
C) mutual funds.
D) corporate bonds.
Use the following to answer questions 16-17:

**Figure: Expanded Circular-Flow Model**

16. (Figure: Expanded Circular-Flow Model)
What is GDP in this economy?
A) $200  
B) $700  
C) $1,000  
D) $1,080

17. (Figure: Expanded Circular-Flow Model)
What is the value of net exports?
A) $-20  
B) $20  
C) $50  
D) $130

18. GDP is:
A) the total dollar value intermediate goods and services produced in the economy in a given period.  
B) the total dollar value of wages paid to producing workers in a given period.  
C) the total dollar value of final goods and services produced in the economy in a given period.  
D) the total dollar value of government production in a given period.

19. Intermediate goods are not counted in the calculation of GDP because:
A) to do so involves double counting.  
B) these goods are not produced for the market.  
C) these goods are produced in the underground economy.  
D) these goods involve financial transactions.

20. An intermediate good would be:
A) a new boat purchased by a professor to be used on vacation.  
B) lumber used to build a house.  
C) payments to military personnel.  
D) a professor's salary.

Use the following to answer question 21:

21. (Table: Calculating GDP) Using the information in the table provided, which of the following is the correct calculation for GDP?
A) $47,475   
B) $12,200  
C) $21,485  
D) $34,085

<table>
<thead>
<tr>
<th>Table: Calculating GDP</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$2,400</td>
</tr>
<tr>
<td>Consumption spending</td>
<td>7,900</td>
</tr>
<tr>
<td>Social Security benefit</td>
<td>6,100</td>
</tr>
<tr>
<td>Investment spending</td>
<td>2,100</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>6,500</td>
</tr>
<tr>
<td>Exports</td>
<td>800</td>
</tr>
<tr>
<td>Interest</td>
<td>1,900</td>
</tr>
<tr>
<td>Government purchases of goods and services</td>
<td>2,600</td>
</tr>
<tr>
<td>Profits</td>
<td>1,400</td>
</tr>
<tr>
<td>Imports</td>
<td>1,200</td>
</tr>
<tr>
<td>Purchase of stocks</td>
<td>6,300</td>
</tr>
<tr>
<td>Unemployment compensation</td>
<td>3,950</td>
</tr>
<tr>
<td>Dividend income</td>
<td>2,963</td>
</tr>
</tbody>
</table>

Page 3
22. The Boeing Company buys $3 million worth of steel, $2.5 million worth of computer hardware and software, and $1 million worth of mechanical tools to manufacture a certain model of aircraft. Boeing sells this particular model of aircraft at $10 million. The value added by Boeing is equal to:

A) $3.5 million.
B) $16.5 million.
C) $13 million.
D) $15.5 million.

23. Which of the following would NOT be a part of GDP?

A) used car sales
B) new residential construction
C) a new truck purchased by a building contractor
D) telephone service purchased for a home

24. If during 2010, the country of Sildavia recorded investment spending of $3 billion, government purchases of $3 billion, consumer spending of $7 billion, imports of $5 billion, government transfers of $1 billion, and exports of $3 billion. Sildavia's GDP in 2010 was:

A) $11 billion.
B) $12 billion.
C) $13 billion.
D) $14 billion.

25. Nominal GDP:

A) has not been adjusted for changes in prices over time.
B) has been adjusted for changes in prices over time.
C) is a small or nominal amount of output.
D) excludes the international sector.

26. Inflation is:

A) a rising aggregate price level.
B) an expansion of output.
C) a rise in wages.
D) a rise in the unemployment rate.

Use the following to answer questions 27-28:

<table>
<thead>
<tr>
<th>Good</th>
<th>Prices in 2010 (Base Year)</th>
<th>Quantity Bought (2010)</th>
<th>Prices in 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backpack</td>
<td>$40</td>
<td>1,000</td>
<td>$50.00</td>
</tr>
<tr>
<td>Notebook</td>
<td>10</td>
<td>5,000</td>
<td>12.00</td>
</tr>
<tr>
<td>Highlighter</td>
<td>1</td>
<td>2,000</td>
<td>1.25</td>
</tr>
</tbody>
</table>
27. (Table: Market Basket of School Supplies) The accompanying table shows the prices of three common school supplies in 2010 and 2011 and the quantities of each school supply that consumers bought in 2010, the base year. If we were to construct a school supply index in 2011, it would be equal to:

A) 81.8
B) 100
C) 122.2
D) 112,500

28. (Table: Market Basket of School Supplies) The accompanying table shows the prices of three common school supplies in 2010 and 2011 and the quantities of each school supply that consumers bought in 2010, the base year. If we were to construct a school supply index (SSI) to measure the rate at which average school supply prices have changed, we would find an inflation rate of:

A) 22%
B) 122%
C) 82%
D) 18%

29. (Table: CPI II) How much did prices change between 2010 and 2011?

A) Prices fell by 5%.
B) Prices fell by 4%.
C) Prices increased by 4%.
D) Prices increased by 5%.

Table: CPI II

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>125</td>
</tr>
<tr>
<td>2011</td>
<td>120</td>
</tr>
</tbody>
</table>

Use the GDP II table to answer questions 30-31:

30. (Table: GDP II) Using the information in the table provided, calculate the GDP deflator for 2010.

A) 111
B) 104
C) 90
D) 96

31. (Table: GDP II) Using the information in the table provided, calculate the GDP deflator for 2011.

A) 111
B) 104
C) 90
D) 96

32. The major difference between the CPI and the producer price index is that:

A) the producer price index is based on retail prices and CPI is based on wholesale prices.
B) the producer price index measures the cost of living of self-employed workers and the CPI measures the cost of living of salaried workers.
C) the producer price index generally registers a higher rate of inflation than the CPI.
D) the producer price index is based on the cost of a basket typically purchased by producers, while the CPI is based on the cost of a basket typically purchased by consumers.
33. The labor force is:
   A) the total of people employed.
   B) the total population.
   C) the total of the population of working age.
   D) the total of people employed and unemployed.

34. The unemployment rate is:
   A) the percent of the labor force that is unemployed.
   B) the number of people unemployed.
   C) the ratio of the labor force to the number of people unemployed.
   D) the average length of time someone is unemployed.

35. To be counted as unemployed, one must:
   A) have had a job previously.
   B) be out of work and be actively looking for a job.
   C) have had a job before and be actively looking for work.
   D) be actively looking for a job and have at least a high-school diploma or its equivalent.

36. The labor force is equal to the:
   A) sum of employment and unemployment.
   B) population minus the number of employed.
   C) sum of the employed and the underemployed.
   D) number of people working in the economy.

37. You are a college student and not working or looking for work. You are:
   A) unemployed.
   B) in the labor force but not employed.
   C) not part of the labor force.
   D) not described by any of the above.

38. The rate of unemployment is found by dividing the:
   A) number of people looking for work by the population.
   B) number of people looking for work by the number of people looking for work plus the number of people employed.
   C) labor force by the number of people looking for work.
   D) unemployed and discouraged workers by the labor force.

39. A survey reveals that on a small island initially 40 people have jobs, 10 people are looking for jobs, and 30 people are neither working nor looking for work. Suppose that 10 of the 30 people who weren't looking for work now begin looking for work. There are now 20 people looking for work and 40 people working. What happens to the unemployment rate?
   A) It rises to 33.3%.
   B) It rises to 50%.
   C) It falls to 25%.
   D) Nothing happens to the unemployment rate, because these people weren't working before and they aren't working now.
40. A survey reveals that on a small island 1,000 people have jobs, 250 people are looking for jobs, and 450 people are neither working nor looking for work. The unemployment rate on the island is:

(A) 20%.
(B) 25%.
(C) 45%.
(D) 15.6%.

Use the following to answer questions 41-42:

Table: Labor Force Data

<table>
<thead>
<tr>
<th>Total population</th>
<th>200 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population age 16 and older</td>
<td>150 million</td>
</tr>
<tr>
<td>Employed</td>
<td>97 million</td>
</tr>
</tbody>
</table>

41. (Table: Labor Force Data) Using the data from the accompanying table, suppose the labor force participation rate is 70%. The labor force is equal to:

(A) 1,200 million.
(B) 50 million.
(C) 105 million.
(D) 400 million.

(C) 105 million.

42. (Table: Labor Force Data) Using the data from the accompanying table, suppose the labor force participation rate is 70%. The number of unemployed adults is:

(A) 8 million.
(B) 53 million.
(C) 103 million.
(D) 50 million.

(A) 8 million.

43. Donna was laid off by her employer at the beginning of 2011. She looked for a job for three months, but could not find anything suitable. She then decided to volunteer for a soup kitchen and stopped looking for a job. Donna is considered to be:

(A) unemployed.
(B) underemployed.
(C) a discouraged worker.
(D) a part-time worker.

(C) a discouraged worker.

44. Periods of recession are likely to be marked by:

(A) rising unemployment.
(B) constant unemployment.
(C) increasing employment.
(D) constant employment.

(A) rising unemployment.
Use the following to answer questions 45-48:

45. (Table: Population Data for Estill County) Use the accompanying table, which summarizes the labor market status of the residents of Estill County. How many people are in the labor force in the county?

A) 6,000
B) 9,400
C) 7,400
D) 6,500

46. (Table: Population Data for Estill County) Use the accompanying table, which summarizes the labor market status of the residents of Estill County. What is the labor force participation rate in the county?

\[
LP = \frac{6,000}{7,400}
\]

A) 64%
B) 81%
C) 17%
D) 79%

47. (Table: Population Data for Estill County) Use the accompanying table, which summarizes the labor market status of the residents of Estill County. What is the unemployment rate in the county?

\[
\frac{5,000}{6,000} = \frac{1000}{6000} = \frac{1}{6}
\]

A) 64%
B) 48%
C) 17%
D) 6%

48. (Table: Population Data for Estill County) If marginally attached workers are included in the labor force, the labor force in Estill County is:

A) 7,400.
B) 6,500.
C) 6,000.
D) 5,500.

49. An example of the frictionally unemployed is a(n):

A) autoworker who is temporarily laid off because of a decline in sales.
B) geologist who is permanently laid off from an oil company due to a new technological advance.
C) worker at a fast-food restaurant who quits work and attends college.
D) real estate agent who leaves a job in Texas and searches for a similar, higher-paying job in California.

50. Most economists agree that sufficiently high minimum wage laws:

A) actually create more unemployment.
B) help lower the unemployment rate.
C) decrease the labor force participation rate.
D) create an opportunity for discouraged workers.
51. The labor demand curve is negatively sloped because:
   A) more people are willing to work at lower wages than at higher wages.
   B) more people are willing to work at higher wages than at lower wages.
   C) employers are willing to hire more people at lower wages.
   D) employers are willing to hire more people at higher wages.

52. Structural unemployment means there are:
   A) more people seeking work than there are jobs in a particular industry.
   B) more jobs than workers in a particular industry.
   C) wages that are too low in a particular industry.
   D) people just entering the labor force.

Use the following to answer questions 53-54: Figure: The Effect of a Minimum Wage

53. (Figure: The Effect of a Minimum Wage)
Suppose the labor market is in equilibrium at E when the government imposes a minimum wage of \( W_F \).
One problem that may arise is that the quantity of labor supplied would ______, resulting in structural unemployment.
   A) decrease to \( Q_D \)
   B) stay at \( Q_E \)
   C) increase to \( Q_S \)
   D) stay at \( W_E \)

54. (Figure: The Effect of a Minimum Wage) Suppose the labor market is in equilibrium at E when the government imposes a minimum wage of \( W_F \). Structural unemployment will equal:
   A) \( Q_S - Q_D \)
   B) \( Q_E - Q_D \)
   C) \( Q_S - Q_E \)
   D) zero.

55. When the unemployment rate is high, there is political demand to increase the length of time for which those laid off can receive benefits. In a standard analysis, this will lead to:
   A) reductions in unemployment.
   B) increases in the unemployment rate.
   C) more job creation.
   D) more job destruction.

56. Which of the following is a LIKELY response to inflation?
   A) People choose to carry higher money balances.
   B) People tend to make fewer transactions.
   C) People tend to make more transactions.
   D) People tend to hold on to fewer interest-bearing assets.
57. The invention of ATMs reduced the:
   A) menu costs of inflation.
   B) shoe-leather costs of inflation.  
   C) unit-of-account costs of inflation.
   D) seignorage.

58. Menu costs are the:
   A) costs of money becoming less reliable.
   B) real costs of changing listed prices.
   C) increase in the transaction costs caused by inflation.
   D) adjustments to the cost of living.

59. Which of the following lending agreements represents the highest rate of return for a bank when it lends its money to a customer?
   A) a fixed interest rate of 8% with 1% inflation
   B) a fixed interest rate of 11% with 5% inflation
   C) a fixed interest rate of 12% with 7% inflation
   D) a fixed interest rate of 19% with 15% inflation

Use the following to answer questions 60-63:

60. Refer to the accompanying figure on the labor market. The equilibrium wage rate is:
   A) $16.
   B) $15.
   C) $14.
   D) $17.

61. Refer to the accompanying figure on the labor market. The level of employment at the equilibrium wage rate is:
   A) 80,000.
   B) 110,000
   C) 100,000.
   D) 90,000.

62. Refer to the accompanying figure on the labor market. What is the unemployment rate at an efficiency wage of $16?
   A) 10%
   B) 20%
   C) 27%
   D) 73%

Figure: The Labor Market